

Message Text

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ACTION NEA-10

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LIMITED OFFICIAL USE SECTION 1 OF 2 TEHRAN 12808

E.O.11652: N/A
TAGS: BBSR, IR
SUBJ: FOREIGN TRANSACTIONS CO. (FTC),/
OUTSTANDING CLAIMS

REF: (A) TEHRAN 12486, (B) TEHRAN 10982, (C) TEHRAN 12040

SUMMARY: THE FOREIGN TRANSACTIONS COMPANY (WHOLLY-OWNED COMPANY OF THE MINISTRY OF COMMERCE), RESPONSIBLE FOR PROCUREMENT FOR THE GOVERNMENT OF IRAN OF SOME BULK COMMODITIES AND A VARIETY OF OTHER PRODUCTS AND EQUIPMENT, IS THE FOCUS OF A LARGE NUMBER OF CLAIMS, COVERING PAYMENT FOR PRODUCTS, TRANSPORTATION AND DEMURRAGE, FROM U.S. AND OTHER FOREIGN SUPPLIERS. MANY OF THESE CLAIMS DATE BACK AS LONG AS THIRTY MONTHS AND DESPITE ESCALATING CLAMOR LITTLE CONSTRUCTIVE ACTION HAS BEEN TAKEN TO SETTLE MATTERS TO THE SATISFACTION OF ANY CLAIMANTS. THE DILATORY STYLE OF MANAGEMENT IS DOING MUCH TO DISCREDIT THE REPUTATION OF THE GOVERNMENT IN THE EYES OF THOSE SUPPLIERS WHOSE PRINCIPAL DEALINGS WITH IRAN HAVE OCCURRED WITH FTC AND CONCEIVABLY COULD DAMAGE ITS EFFORTS TO MAINTAIN A SMOOTH FLOW OF ESSENTIAL COMMODITIES AT COMPETITIVE PRICES. THE EXPERIENCE OF FTC IS A MICROCOSM OF PROBLEMS THE GOVERNMENT HAS FACED IN IMPLEMENTING THE FIFTH PLAN.

1. BACKGROUND: BEGINNING IN LATE 1974, THE VOLUME OF ORDERS ISSUING FROM THE FTC INCREASED AT A GEOMETRIC RATE. WITH ESSENTIALLY THE LIMITED OFFICIAL USE

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SAME STAFF AND LEVEL OF EXPERTISE OF A TIME WHEN PROCUREMENT WAS LIMITED AND STABLE, FTC SUDDENLY FOUND ITSELF ATTEMPTING TO COPE WITH ALL TYPES OF REQUIREMENTS FROM COMMERCE AND OTHER AGENCIES. THIS RUSH OF ORDERS FROM FTC WAS ONLY ONE COURSE AMONG A FLOOD EMANATING FROM OTHER GOVERNMENT AGENCIES AND THE PRIVATE SECTOR WHICH, BY THE SUMMER OF 1975, CULMINATED IN THE CREATION OF A

MONUMENTAL LOG JAM IN IRANIAN GULF PORTS. THE SUBSEQUENT DEMURRAGE AND OTHER COSTS ENSUING FROM THE CONGESTION HAD NOT BEEN ANTICIPATED BY THE CONTRACTING OFFICERS WHO HAD NOT BUDGETED FOR DEMURRAGE AND OTHER COSTS. LACK OF EXPERTISE AND COMPLETE CONFUSION IN FTC SEEMINGLY HAS ALMOST PARALYZED THE STAFF IN ITS ABILITY TO EVALUATE CONTRACTS, AUDIT CLAIMS PUT FORWARD BY SUPPLIERS AND SHIPPERS, AND TO MAKE DECISIONS ON PAYMENT.

3. PERSONNEL: MORALE AT FTC HAS NOT BEEN AIDED BY PUBLICITY GIVEN TO INVESTIGATION OF TWO FORMER OFFICIALS ASSOCIATED WITH PROCUREMENT: M.A. SEYRAFI, MANAGING DIRECTOR OF FTC, WAS REMOVED FROM OFFICE IN FEBRUARY 1976 FOR ALLEGED IRREGULARITY IN DEALINGS WITH TATE & LYALL SUGAR CO. OF UK. THIS CHARGE HAS RECENTLY RESURFACED AND CHARGES HAVE EXTENDED TO HOSSEIN ALIZADEH, FORMER COMMERCE UNDER SECRETARY AND MANAGING DIRECTOR FOR THE GRAIN, SUGAR AND TEA ORGANIZATION. A NEW MANAGING DIRECTOR OF THE FTC, MANCHEHR AZMUDEH, WAS INSTALLED IN FEBRUARY, ALLEGEDLY WITH A MANDATE FOR CLEANING UP THE OPERATION.

4. NUMBER OF CLAIMS: AMONG THE MOST VOCAL OF THE CLAIMANTS HAVE BEEN THE RICE GROWERS. SINCE THE QUESTION FIRST CAME TO THE ATTENTION OF THE EMBASSY DURING THE ARKANSAS TRADE MISSION IN THE SPRING OF 1975, THE GROUP HAS MADE REPEATED ATTEMPTS TO ELICIT PAYMENT. GRAIN SHIPPERS AND OTHER COMMODITIES INCLUDING OILS, CEMENT AND FERTILIZER ALSO HAVE EXTENSIVE DEMURRAGE CLAIMS. ADDITIONALLY THERE ARE OTHER KINDS OF CLAIMS. FOR EXAMPLE, WERNER LEHARA (AND AN ASSOCIATED U.S. FIRM) HAD A LONG-STANDING CLAIM FOR EQUIPMENT AND WORK FOR A BAKERY PROJECT WHICH THEY INITIATED ON THE PROMISE THAT A LETTER OF CREDIT WOULD BE OPENED THIRTY DAYS AFTER SIGNING OF THE CONTRACT. AFTER A 6-8 MONTH DELAY, FTC FINALLY OPENED THE LETTER OF CREDIT AGREED TO UNDER THE CONTRACT. A LARGE (ALMOST \$900 LIMITED OFFICIAL USE

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THOUSAND) MACK TRUCK CLAIM FOR RELEASE OF A PERFORMANCE BOND WAS FINALLY SETTLED (SEE TEHRAN 10982 3 NOVEMBER 1976). INTERNATIONAL HARVESTER HAS NEGOTIATED A SETTLEMENT ON A \$500 THOUSAND PLUS DISPUTE BUT THE PROMISED PAYMENT HAS NOT YET BEEN FORTHCOMING.

5. RICE GROWERS/SHIPPERS: A NUMBER OF THE U.S. RICE SHIPPERS RETAINED CAPTAIN WOLFGANG BEHRENS OF MASTER MARINE CONSULTANTS, INC., TO PURSUE THEIR CLAIMS. HE ARRIVED IN TEHRAN IN LATE OCTOBER AND SPENT SIX WEEKS ATTEMPTING TO DISCUSS THE CASE WITH OFFICIALS IN FTC. HE CONCLUDED AFTER EXTENSIVE CONVERSATIONS THROUGHOUT THE COMPANY THAT THERE IS NO ONE PRESENTLY ON THE FTC STAFF WHO HAS THE EXPERIENCE IN SHIPPING AND DEMURRAGE PROBLEMS TO AUDIT CLAIMS PROPERLY. A NUMBER OF COMPANIES WHEN THEY PRESS THEIR CLAIMS ARE TOLD TO RESUBMIT DOCUMENTATION WHICH HAS ALREADY BEEN SUBMITTED AND WHICH SHOULD HAVE BEEN IN FTC FILES. IT IS NOT CLEAR WHETHER THESE REDUNDANT REQUESTS DENOTE CHAOS OR DELAYING TACTICS BUT THE NET RESULT IS THE SAME.

6. CURRENT STATUS: IN RESPONSE TO PRESSURE FROM CREDITORS AND OTHER SOURCES (SEE TEHRAN 12040 OF 12/5/76). MANAGING DIRECTOR AZMUDEH TELEXED TO TEN U.S. RICE GROWERS/SHIPPERS FOR A MEETING IN TEHRAN BEGINNING DECEMBER 18-22, REQUESTING THAT THEY OR AUTHORIZED REPRESENTATIVES BRING WITH THEM AND SUBMIT CERTIFIED DOCUMENTATION. FIVE OF THE INVITEES SENT REPRESENTATIVES; TRANS-AMERICA AND REMAINDER ISSUED AUTHORIZATION TO BEHRENS TO REPRESENT THEM. TOTAL CLAIMS INCLUDING INTEREST CALCULATED APPROXIMATELY \$20-30 MILLION. BEHRENS WAS FROM THE START, OF THE OPINION THAT SUCH A MEETING WOULD SOLVE NOTHING UNLESS FTC HAS CALLED IN FOREIGN EXPERTS TO ADJUDICATE THE CLAIMS. IN THIS CONNECTION, EMBOFF MADE AN APPOINTMENT IN MINECONAFFAIRS FOR BEHRENS TO PRESS VIEW THAT CONSULTANTS NEED TO BE CALLED IN IF PROBLEMS ARE TO BE SOLVED EXPEDITIOUSLY. EMBOFF ACCOMPANIED BEHRENS TO SEE A SPECIAL ASSISTANT TO THE MINISTER, WHO APPEARED SYMPATHETIC AND PROMISED TO BRING THE MATTER TO THE ATTENTION OF HIGHER OFFICIALS.

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FOLLOWING THE MEETING BETWEEN FTC AND THE RICE GROWERS/SHIPPERS, THE RESULTS OF THE CONFERENCE WERE REPORTED TO THIS OFFICIAL WHO INDICATED HE HAD INDEED SENT A MEMORANDUM TO DEPUTY MINISTER SHORAKA. THE MEETINGS WHICH WERE HELD BETWEEN DECEMBER 18-22, SOLVED NOTHING. EACH CASE WAS DISCUSSED INDIVIDUALLY AND PRIVATELY BUT THE OFFER APPEARS TO HAVE BEEN THE SAME IN EACH INSTANCE - TWENTY-FIVE CENTS PER TON PER DAY. THIS RATE WHICH, ACCORDING TO BEHRENS IS ABOUT FIFTY CENTS ON THE DOLLAR, WAS COMPLETELY UNACCEPTABLE. ACCORDING TO BEHRENS, HOWEVER, THE SAME OFFER - PERHAPS AVERAGING \$4 THOUSAND A SHIPMENT- MIGHT WELL BE CONSIDERED GENEROUS BY GRAIN SHIPPERS BECAUSE DEMURRAGE RATE FOR GRAIN WOULD BE MUCH LOWER. IT WOULD APPEAR IN THE RICE DEMURRAGE CASES THAT THE NEXT RECOURSE IS TO ARBITRATION AS PROVIDED IN THE CONTRACTS - BY THE RICE HOUSES WITH THE PURCHASER AND BY THE SHIPPERS WITH THE RICE HOUSES, DEPENDING ON THE FACTS IN EACH

CASE. SOME HAVE INDICATED THAT THEY INTEND TO DISCUSS THE MATTER WITH THE PRESS. THE EMBASSY WILL CONTINUE TO FOLLOW THE SITUATION AND POSSIBLY FOLLOW UP WITH THE MINISTRY OF ECONOMIC AFFAIRS AND FINANCE ALONG THE LINES INITIATED BY CAPTAIN BEHRENS BUT HAS NOT GREAT OPTIMISM CONCERNING AN EASY SETTLEMENT.

7. CNOMENT: FTC SEEMS TO BE DEALING WITH ITS PAYMENT PROBLEMS VIA THE "SQUEAKY WHEEL" SYNDROME. ONLY RICE GROWERS/SHIPPERS WERE DEALT WITH IN THE DECEMBER 18 MEETING POSSIBLY BECAUSE THE DEMURRAGE RULES SCALE IS QUITE DIFFERENT BUT POSSIBLY ALSO BECAUSE THEY HAVE BEEN LIMITED OFFICIAL USE

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VERY VOCAL. INTERNATIONAL HARVESTER REP NEGOTIATED A SETTLEMENT ONLY THROUGH EXTREME PERSISTENCE AND THE MACK CLAIM INVOLVED NUMEROUS INFORMAL REPRESENTATION BY THE EMBASSY. THE MINISTRY OF COMMERCE HAS KEPT ITS DISTANCE FROM PROBLEM, ALLEGEDLY SAYING THAT THE MANAGING DIRECTOR WAS BEING LEFT TO FOLLOW INSTRUCTIONS TO CLEAN UP THE SITUATION. ONE STORY SAYS THAT FTC HAS BEEN TOLD BY THE MINISTRY OF ECONOMIC AFFAIRS AND FINANCE TO SUPPLY A COMPLETE AUDIT SO THAT THE PLAN AND BUDGET ORGANIZATION CAN BE APPROACHED FOR A SUPPLEMENTAL BUDGET ALLOCATION TO COVER CHARGES FOR WHICH NO PREVIOUS BUDGET ALLOCATION HAD BEEN MADE. ANOTHER STORY SAYS FTC IS TRYING TO FLOAT A \$300 MILLION LOAN. CLAIMS, HOWEVER, ARE BELIEVED TO TOTAL TWO OR THREE TIMES THAT AMOUNT. BEHRENS' BELIEF THAT FTC DOES NOT HAVE COMPETENT STAFF TO UNDERTAKE AUDIT PROCESS IS BORNE OUT BY ADVERTISEMENTS WHICH APPEARED FOR TWO WEEKS IN EARLY DECEMBER IN THE ENGLISH-LANGUAGE PRESS SEEKING "QUALIFIED EXPERTS WITH FIVE YEARS EXPERIENCE MINIMUM" IN FOLLOWING CATEGORIES: INTERNATIONAL TRANSPORTATION WQCRTS, COMMODITY/QUALITY AND QUANTITY INSPECTORS/SURVEYORS; INSURANCE SPECIALISTS; COMMERCIAL ACCOUNTANTS FAMILIAR WITH BANKING AFFAIRS; SHIPPING/RECEIVING CLERKS. FTC'S SITUATION IS A MICROCOSM OF MANAGERIAL/PERSONNEL PROBLEMS WHICH A WIDE RANGE OF PUBLIC SECTOR ORGANIZATION, AND SOME PRIVATE SECTOR HAVE EXPERIENCED FOLLOWING THE BOOM PERIOD FROM MID-1974 TO MID-1975. UNCONTROLLED SPENDING COUPLED WITH POOR PLANNING, QUANTITATIVE PERSONNEL DEFICIENCIES, AND ERRATIC APPLICATION OF MODERN MANAGEMENT METHODS ARE NOW BEARING FRUIT IN THE FORM OF TRADE COMPLAINTS, BREAKDOWN IN DISTRIBUTION AND OTHER INDICATIONS OF GROSS INEFFICIENCIES.

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